

Edson

THE DIRECTOR OF
CENTRAL INTELLIGENCE

National Intelligence Council

26 July 1985

NOTE FOR: Director of Central Intelligence

FROM: David B. Low
NIO/Econ

Attached are the talking points prepared by Ambassador Keating which he mentioned to you yesterday. They are derived mostly from the previous paper, but they add a bit more emphasis on the relationship to US security interests.



David B. Low

Attachment:
As Stated

Ambassador Robert B. Keating
25 July 1985

INTERNATIONAL PRIVATE ENTERPRISE:
WHEN WILL THE REAGAN REVOLUTION BEGIN?

Talking Points

THE SETTING

1. The President at Cancun in 1981 articulated a positive program of action for economic development which emphasized the need to encourage LDC growth through the private sector. The President's program, however, remains unfulfilled for the Administration's strategy and mechanisms for carrying out the goals are flawed.
2. Changing economic circumstances in the Third World have created a new context for political and economic relations and new opportunities to enhance US security interests. Many Third World leaders now recognize that rigid Marxist-socialist models will not yield economic and industrial growth. They are increasingly concerned with the "politics of economics" and not the "politics of socialism," and look to market-oriented approaches to rebuild shattered economies. Moreover, the Soviets are not able to offer much in the way of economic assistance, and Soviet economic and financial constraints over the next 10 years will make Moscow even less able to compete in non-military sectors.

THE CHALLENGE

3. The growing American economy and its private sector is an irresistible example impelling change in the economies of both the industrial and Third World countries. If we are able to take advantage of the economic forces for change in the Third World, then the West's position relative to the Soviet Union would be strengthened. In specific countries, US security interests will often coincide with opportunities for economic support of private sector enterprise and can be mutually reinforcing.

THE OBSTACLES

4. Our private enterprise, not government direction, created the economic system which provides the resources we transfer to LDCs. Yet our economic assistance generally ignores our own model of growth. Virtually all US aid moves from US bureaucracy to foreign bureaucracy before any of it has the opportunity to move to the private sector. Significant change in the private sector cannot be leveraged primarily on the back of governmental institutions.
5. AID, as currently structured, is not the solution. In fact, it is part of the problem. Present developmental assistance efforts show little positive correlation with private sector growth. AID's understanding of the private sector is limited, and its resource transfers to LDC governments may support short-term political stability but often they retard long-term growth of private enterprise.

THE PROPOSALS FOR CHANGE

6. The Peterson Commission in 1972, the Reagan Transition Team in 1980-81, the Carlucci Commission of 1982, a portion of the President's Task Force on International Private Enterprise in 1984, and others, have concluded that AID is the wrong institution to carry out the private sector mandate. These groups have proposed that resources be transferred from AID to an environment which understands the private sector (e.g., an expanded OPIC or a US International Development Bank). Unless the Administration is prepared to do this, the President's Cancun goals will not be fulfilled. (AID's legislation and institutional orientation reflect the dominance of the humanitarian aspect of development assistance, and it seems reasonable that AID should continue to be predominantly a humanitarian institution.)

THE OPTIONS

7. In order to implement an Administration commitment to change, the President can:
 - a. Appoint a new head of the International Development Corporation Agency (IDCA) which was established by Reorganization Plan No. 2 of 1979 to be a focal point for international issues affecting US relations with developing countries. This already established position would offer the opportunity to implement the President's Cancun goals, to develop strategies and modalities for stimulating private enterprise in the Third World, and to support more effectively US private sector investments in LDCs. (The AID Director is currently Acting Director of IDCA.)
 - b. Appoint a special assistant to the President for International Private Enterprise. This would be an alternative choice which would allow attainment of the goals expressed in Option 1.
 - c. Appoint a new director of AID who would blunt the current policy drift which is counter to many of the president's private sector objectives. The new director, however, would be confronted with a staff that does not understand the private sector and bureaucratic inertia or resistance to change would consume a great deal of time.